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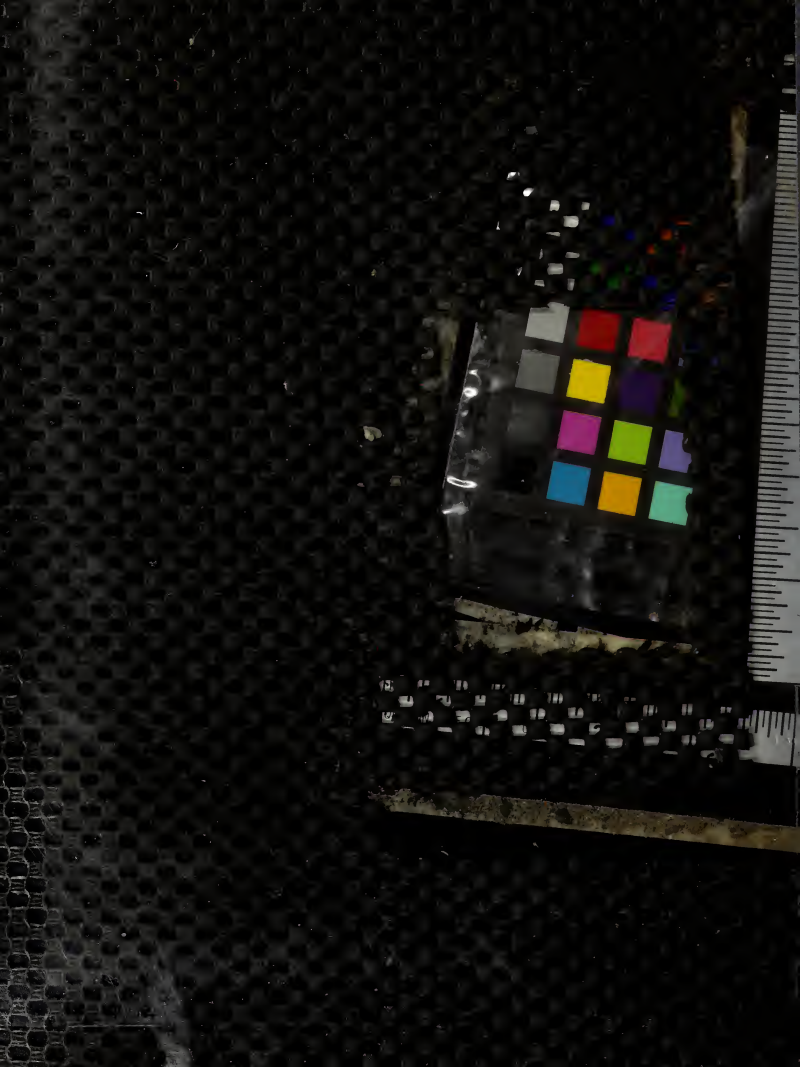
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STAFF COMMENTS ON THE  
"COMPREHENSIVE HOUSING REHABILITATION STRATEGY" REPORT  
SUBMITTED BY BOOZ, ALLEN AND HAMILTON INC., CONSULTANTS  
TO THE DEPARTMENT OF CITY PLANNING

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## Introduction

This report is a summary of the Rehabilitation Financing Study. The purpose of this report is to identify for the City Planning Commission those of the Study's recommendations which the staff of the Department feels should be endorsed and implemented, those which require further study, and those which either have already been implemented or which staff feels should not be endorsed at this time.

The Rehabilitation Financing Study has been conducted under the direction of the Department of City Planning for the Mayor's Office of Community Development. The study has been carried out by a consultant team, coordinated by the firm of Booz, Allen and Hamilton, Inc. The Final Report was submitted by the consultants on April 14, 1977, signalling an end of their contract. The responsibility now falls to the City and its various agencies and officials to put into action the consultant recommendations.

## Background

The consolidation of federal assistance programs that came into being in 1973 - 1974 have made profound changes on the ability of cities to carry out housing and community development activities. It has become possible to allocate the City's federal funding to the objectives and policies that have been adopted as local priorities. For the first time, clear linkages can be established in the planning - programming - implementation process, resulting in greater impact on local urban problems.

In the area of rehabilitation programming, San Francisco so far has failed to take full advantage of this new capability. The City's commitment to rehabilitation as its primary housing strategy was embraced and adopted as official City policy in the Residence Element of the Master Plan, and given further emphasis and detail in the Residence Strategies and Programs report of the Department of City Planning in 1973. Despite these commitments, the City's efforts remain fragmented, uncoordinated, and spotty.

The arguments behind rehabilitation as a less expensive, less disruptive approach to community renewal hardly need repeating. Neighborhood preservation has become the watchword among urban policy makers in recent years, and the major efforts to implement it have been through Citywide zoning revisions and rehabilitation programs: code enforcement, financial assistance, and counseling. Although much is being done to foster rehabilitation through these programs, the consultants' report on Rehabilitation Financing illustrates amply the many areas in which the current efforts could be improved and expanded. What the consultants' recommendations show most importantly, perhaps, is how far the City is from fully honoring its commitment to rehabilitation that it adopted over three years ago.



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## Summary of the Consultants' Recommendations

The final report submitted by the consultants is a detailed document covering some 300 pages and exhibits. In order to provide a more manageable document for public review, and particularly to identify the staff's recommendations on these matters, this summary has been prepared.

The consultants' recommendations are listed below in the same general categories as set forth in their report. They are identified here in italic type to set them off from staff's comments. In some cases they are paraphrased versions of the consultants' own language, in others the recommendations have been quoted verbatim. References following each recommendation are to the page number of the Final Report where the recommendation is made.

### I. REHABILITATION FINANCING

The area where perhaps San Francisco can achieve the greatest improvements in its rehabilitation programs is in the area of rehabilitation financing. The recommendations which follow in this section are generally aimed at creating within the City the capability of dealing with more types of rehabilitation situations than can be affected at the present time, and thereby providing to many more owners and tenants the ability to rehabilitate, maintain, and afford the City's housing stock.

The underlining strategy behind the recommendations attempts to match financing tools with the appropriate level of assistance within the constraints of available public resources and the resources of owners and renters who must finance rehabilitation. The underlying criteria used by the consultants was cost effectiveness. That is, given a limited amount of funds with which to establish, administer, and subsidize rehabilitation financing programs, which ones provide the greatest benefits or generate the greatest leverage per public dollar expended?

The range of public subsidy recommended by the consultants is broken into three categories:

- "unassisted" - Primarily to encourage those who can afford rehabilitation to actually do it; and to remove artificial impediments such as red-lining from obstructing privately initiated, market - rate rehabilitation.





- "indirectly assisted" - Primarily to expand the range of assistance that could be provided to persons in the mid-range of the income spectrum; to ease the impact of code enforcement; and to bring the benefits of tax-exempt bonding to bear on rehabilitation problems.
- "directly assisted" - Primarily financing tools which could be established by the City for direct lending or granting of funds to make rehabilitation feasible for those who could least afford the cost.

#### A. Unassisted Financing

##### *1. Establish a Financing Advisory Committee (III-2)*

This would be a working committee of technical professionals from City agencies, private banks and savings and loans, the Federal Housing Administration (FHA), the California Housing Finance Agency (CHFA), and others to meet regularly under the auspices of the Mayor or other high public official to look into and concern itself with pertinent financial matters. It would function as a liaison between the City and private-market lenders and loan insurers. Staff feels that this is a very high priority recommendation that should be implemented immediately and should be a means to expand both unassisted and indirectly assisted (see Section B in the following page) financing programs.

Areas where the consultants have recommended this committee concern itself with include:

- a) Expanding access to private, market-rate mortgage refinancing and other accepted and innovative methods which could favorably affect one's willingness to re-invest in rehabilitation. (III-11)*
- b) Pushing for greater use of refinancing and add-on mortgage loans. (III-14)*
- c) Consideration of the private sector institutionalization of pre-sale inspection requirements that the City might require. (III-15)*
- d) Identifying and correcting redlining in San Francisco neighborhoods. (III-16)*



- e) *Reviewing the development of City policies and programs for financial counseling and rehabilitation generally, with particular attention to developing cooperative arrangements around a combined FHA/Marks-Foran/CHFA lending program. (III-16)*

Staff feels that all of these areas of concern are worthy of highest priority consideration by any such committee that is established.

## *2. Establish Neighborhood Financing Committees. (III-17)*

Committees with specific interest in and representation from neighborhoods affected by redlining or other such obstacles could be established to draw attention to the problem and develop solutions. Staff feels that this recommendation relates to both unassisted and indirectly assisted financing and should be endorsed for immediate implementation.

## B. Indirectly Assisted Financing

1. *Expand the use of the Marks-Foran Residential Rehabilitation Act to issue tax-exempt municipal revenue bonds for the purpose of financing residential rehabilitation at below market-rate terms. (III-43)*

The basic idea of this recommendation is that once the City establishes a significantly large pool of funds for rehabilitation financing, it can then allocate these resources to many more needy recipients than at the present time. These would include property owners in designated rehabilitation areas, such as RAP areas, and property owners of eligible buildings affected by the City's Systematic Code Enforcement Program which might be located anywhere in the City. Tenants of these buildings would benefit from improved housing conditions at the least possible cost.

Staff agrees that creating a larger loan pool is the key to expanding the City's rehabilitation programs. Implementation of this recommendation is, therefore, essential. However, action on this recommendation must be taken only in the context of many other recommendations and actions which would affect how the bond proceeds would be used and what the program details would be.

The consultants have recommended that the following actions might be necessary to ensure the expansion of the Marks-Foran Loan program:



- a) *The City should utilize FHA, VA, and SBA insuring and loan guaranteeing programs to limit the risk of Marks-Foran loans and make the bonds more saleable. (III-45)*
- b) *The City should commit itself to use Community Development funds to guarantee Marks-Foran bond proceeds whenever FHA, VA or SBA insurance is not available. (III-45)*
- c) *Establish the necessary legislation and issue Marks-Foran bonds to finance scattered site rehabilitation based on the eligibility of the building and the low income eligibility of the occupants. (III-45)*
- d) *Expand the use of Marks-Foran bond proceeds for refinancing. (III-46)*
- e) *Explore the use of Marks-Foran bond proceeds for "infill" new housing construction and/or substantial rehabilitation. (III-46)*
- f) *Explore the use of Marks-Foran bond proceeds for financing the rehabilitation of commercial areas in conjunction with SBA loans. (III-47)*
- g) *Explore the possibility of the Housing Authority issuing Marks-Foran bonds to finance the rehabilitation of housing in which it could then lease units for low income occupancy. (III-47)*
- h) *Explore the possibility of using the authority under SB99 (the Redevelopment Construction Loan Act) to finance "infill" new housing construction in designated redevelopment areas to complement rehabilitation activities. (III-47)*
- i) *Use the Gregorio State Bond Insurance program to insure Marks-Foran bonds whenever FHA, VA, or SBA insurance is not available. (III-51)*
- j) *Maximize the use of arbitrage on the bond proceeds. (III-52)*



Staff feels that, to varying degrees, all of the above items could be useful in an expanded loan program. Staff should proceed to discuss with other implementing agencies on the procedures and mechanisms of exercising these actions.

2. *Amend the RAP Ordinance to place more strict limitations on rent increases allowable with a Marks-Foran loan. (III-50)*

Staff feels that this is a very important recommendation that can and should be implemented immediately. Staff has already drafted language which would limit rent increases to the net after-tax costs of the owner. After review by relevant City agencies, this amendment could be submitted to the Board of Supervisors for action.

3. *Amend the RAP ordinance to allow for loans to be made in the full amount allowed by the Marks-Foran enabling act. (III-50)*

Recent legislative action by the Board of Supervisors has already approved the increasing of the loan limit for single family homes from \$17,500 to the full \$30,000 allowed under the Marks-Foran Act. Staff will consider the need of extending this full maximum to multi-unit buildings.

4. *Promote the use of existing FHA insuring programs to facilitate private lender participation of rehabilitation activities, either with or without the use of Marks-Foran bond issues. (III-33)*

The consultants have identified a number of existing FHA programs which, with some minor modifications by FHA in program guidelines and loan limits, and with aggressive marketing by the City agencies and FHA through private lenders, could be extremely effective in stimulating private reinvestment in rehabilitation that would not need any additional assistance from the City. The key FHA programs to focus on are:

- a) *203(b), 223(c), and 223(f) for refinancing and rehabilitation of single and multi-family structures. (III-34)*
- b) *Private lender origination of Title I Home Improvement loans (up to \$10,000 for a single-family home, approximately 12% interest, 12 years term). (III-38)*





- c) *Major rehabilitation, purchase, or new construction under the 203(k), 202, 220, and 221 programs. (III-38)*
- d) *Expand the allocations to San Francisco of direct loan funds for major rehabilitation under Section 202.*
- e) *Expand the allocations to San Francisco for direct loan funds under the Section 312 loan program for 3% loans in conjunction with concentrated code enforcement. (III-42)*
- f) *Allocate Section 8 Housing Assistance Funds to buildings undergoing substantial rehabilitation. (III-42)*

The consultants have provided the City with a number of good examples of where discussions and cooperative efforts between the City and FHA could resolve some longstanding problems that may be inhibiting privately initiated rehabilitation. The City should take advantage of the new administration's desire to mount an effective housing program to get FHA programs working in a central city context. The consultant's recommendations should be endorsed and vigorously pursued.

- 5. *The City should move to take advantage of the various new programs of the California Housing Finance Agency in support of its rehabilitation efforts. (III-53)*

The recommended actions that the City should begin to take are:

- a) *Designate areas for rehabilitation under the Neighborhood Preservation Program, both as "rehabilitation areas" in conjunction with the City's RAP program, and as "Mortgage Funds Assistance Areas" for a more voluntary approach to rehabilitation. (III-54)*
- b) *Use the CHFA loan programs as additional resources to the City's loan programs such as under Marks-Foran. (III-54)*
- c) *Designate one staff person or agency within the City as liaison for all CHFA matters. (III-63)*



- d) *Promote the participation of local lenders and developers in the single-family financing programs of CHFA. (III-58)*
- e) *Reach agreements with cooperating private lenders on loan terms of primary and secondary financing to deter runaway speculation. (III-60)*
- f) *Use CHFA direct multi-family rehabilitation loans for scattered site rehabilitation and/or conversion coupled with Section 8 rent assistance. (III-61)*
- g) *Train City loan officers and counselors in the origination and processing of CHFA loans. (III-59)*
- h) *Explore the use of public City deposits to leverage cooperation from private lenders in CHFA single-family private placement program. (III-66)*

San Francisco has already begun to use the new programs of CHFA by designating the Inner Richmond RAP area for the CHFA Neighborhood Preservation Program. Another application will soon be sent to the state to designate an area in the Ingleside neighborhood for a Mortgage Assistance Area. Staff concurs with the consultants that the City ought to take full advantage of the CHFA programs. As these programs become operative, the detailed recommendations for further discussion with CHFA will take on added importance. As a short-range action, staff should work with other relevant local agencies to optimize the use of CHFA programs. As a longer-range action, the recommendations might best be worked out through the staff of the proposed office of Housing Finance.

### C. Directly Assisted Financing Programs

This category of recommendations includes those which involve the direct use of City funds to help make rehabilitation feasible in the lower income segment of the population.

1. *Revise the City's Hardship Loan Program in the following ways:*
  - a) *Provide for periodic recertification of eligibility for hardship loans. (III-83)*
  - b) *Provide for flexible repayment schedules. (III-83)*
  - c) *Provide for flexible or variable interest rates. (III-83)*



Implementing all three of these recommendations would involve amending the RAP ordinance and the Board of Supervisors Resolution which authorizes the Hardship Loan Program. Staff feels that these would be beneficial changes in that they may result in quicker pay back of the monies loaned out under the program, and would allow broader use of the funds. Staff recommends endorsement for immediate implementation.

- d) *Increase the loan amount from \$3,500 to \$5,000. (III-83)*

Staff agrees that the existing limit of \$3,500 is most likely insufficient to cover the cost of even life/safety code violations in the eligible cases, and that the limit should be raised. Staff does not have any justification, however, for a \$5,000 limit. Staff believes a better approach would be to relate the hardship loan amount to whatever the actual costs of correcting life/safety violations happen to be in each case, but with an upper limit to avoid abuses

- e) *Provide Hardship Loans for qualifying homeowners to be eligible anywhere in the City, not just in RAP areas. (III-83)*

This would be a desirable change. Since the source of funds for this program is the Community Development Block Grant, care would have to be taken to ensure that each case where a hardship loan was made was in fact an eligible expenditure under the terms of the CD regulations. Staff suggests that further study of this recommendation is warranted.

- f) *Increase the appropriation from the Community Development Block Grant from \$100,000 to \$150,000 for 1977 and an additional \$100,000 in 1978. (III-84)*

This is most likely not possible in the 1977 CD program since funds have already been allocated. For 1978, requests for increased allocations would have to be made at the Needs Hearings in May and June, 1977.

- g) *Establish a Hardship Loan Program where assistance is triggered by the low income eligibility of the tenants of a building. (III-84)*

This idea involves a direct loan from CD reserves to a building owner whose tenant(s) would not be able to pay the costs of rehabilitation otherwise. The loan would be made to preclude rent increases and would not be repaid for a period of time - perhaps when the low income tenancy of the unit is terminated (not necessarily under the



same household). Some means clearly needs to be developed to deal with the impact of rent increases on low income households. This particular approach needs further study to estimate the administrative costs and monitoring difficulties, to evaluate its cost effectiveness relative to other approaches, and to estimate the magnitude of funding that would be necessary to make the program operative.

- h) Generate resources to replenish the Hardship Loan pool by adding interest rate surcharges to conventional loans made by the City under Marks-Foran bond issues. (III-85)*

Staff feels that this idea would conflict with the basic intent of the Marks-Foran program, and would begin to erode its effectiveness as a below-market rate loan program. Staff feels that the Hardship Loan program would operate on its own funds, allocated from the CD program, and should not detract from the effectiveness of other programs. The Hardship Loan pool as currently structured is a revolving loan program, and all the funds loaned out will be recoverable.

- 2. Revise the provisions of the Repair and Demolition Fund to make it a more useful emergency loan program. (III-87)*
  - a) Provide better publicity about the Repair and Demolition Fund for broader use, either as currently structured or as amended. (III-88)*
  - b) Explore the legal feasibility of using the Repair and Demolition Fund for short-term market rate financing to correct life/safety code violations. (III-87)*
  - c) Establish interest rates and administrative fees to reflect private market rate terms. (III-87)*

Staff concurs with these recommendations and suggests endorsement for immediate implementation by the Bureau of Building Inspection.

- d) Consolidate administrative responsibility for this loan program into the Office of Housing Finance. (III-88)*

Staff feels that the administrative reorganization of this loan program should be considered in the context of the overall reorganization proposals. It would be more logical to have the program administered by the proposed Office of Housing Finance.





3. *Establish a Downpayment Assistance Program to facilitate conversion to owner occupancy - particularly in rehabilitation areas.*
  - a) *Make qualified applicants from all rehabilitation areas eligible for this program.*
  - b) *The administration of the program should be the responsibility of the Office of Housing Finance (III-89)*
  - c) *The funding for this program should be out of the Community Development Block Grant. (III-89)*

This idea was first proposed for the Haight-Ashbury, and funds were appropriated to implement a demonstration program. The ordinance detailing how the program was enacted as Chapter 35 of the San Francisco Administrative Code. Funds for the program were subsequently recinded by the Board of Supervisors. Staff suggests that further review of the concept and the procedures with private lenders and the Board of Supervisors is necessary before moving ahead on this potentially desirable program.

4. *Lobby for continued Congressional appropriations for the Section 312 Loan Program. (III-90)*

Staff feels that the City should keep constant pressure on Congress to provide sufficient funding for this highly successful and effective federal program and proposes to work with the Mayor's Office of Community Development to that end.

5. *Develop a program of Acquisition - Rehabilitation - Resale of properties where the owner is unwilling or unable to undertake rehabilitation. (III-91)*
  - a) *Rely on private developers to acquire/rehabilitate - resell the properties, using City loan funds. (III-91)*
  - b) *The City should establish the capability as a private banker to package financial arrangements for private sector acquisition for rehabilitation and resale - at terms and conditions set by the City. (III-93)*



Staff feels that it would be desirable to have the City be in a position to implement an acquisition - resale program if it can be expeditious and cost effective. We concur that the private sector may be able to perform this function at lower cost than a City agency. However, the City should remain in control of the terms and conditions of the transaction. Staff suggests that before endorsing this recommendation, further study should be made to determine in greater detail how this program might be structured. Presently, the study of this approach is an integral part of the analysis of the proposed Bayview-North RAP/Renewal Project.

6. *Allocate CD funds to guarantee or provide default reserves of Marks-Foran Bonds if mortgage insurance under FHA, CHFA, VA, or SBA is not available. (III-95)*
  - a) *As a first step, fund default reserves out of bond proceeds (i.e. set aside funds off the top and replenish through arbitrage) (III-95)*
  - b) *Replace existing loan funds of the Redevelopment Agency and Model Cities Housing Development Corporations with Marks-Foran Bond issues. (III-95)*
  - c) *Replace the CD funds used for bond default reserve by imposing a percentage add-on surcharge to the interest rate on Marks-Foran loans (approximately 1/2% - 1%). (III-95)*
  - d) *Assure that any CD funds used as security for bond issues generate interest income to the City. (III-96)*

Staff generally feels that these recommendations could result in a reduction in the current drain on CD funds, and could therefore be desirable in expanding the overall effort. The details of the bond issues, however, do not lend themselves to easy generalization, and staff feels that it is premature to endorse these recommendations until there is further evaluation of the benefits suggested by the consultants. The proposed Office of Housing Finance may be the appropriate entity to perform such evaluation. With respect to item (c) above, staff feel that any surcharges on the Marks-Foran interest rates should be minimized so as not to defeat the purpose of the savings that result from the tax-exempt bond issue.

7. *Consolidate the administration of all direct loan programs under the Office of Housing Finance. (III-97)*
  - a) *Establish a Rehabilitation Assistance Selection Process. (III-97)*



- b) *Establish a Revolving Rehabilitation Assistance fund with specific dollar amounts earmarked to specific programs and project areas. (III-98)*

Again, this is a recommendation whose desirability cannot be fully evaluated until further study is made of how this might be implemented. Staff feels this recommendation should be considered integrally with the recommendation on the Office of Housing Finance.

## II. CODE ENFORCEMENT AND ADMINISTRATION

This section of the consultants' report is concerned primarily with the mechanisms by which the City administers its rehabilitation and code enforcement programs. Although the discussion and recommendations under this heading are, strictly speaking, not financing questions, the area of concern is directly relevant to financial considerations. The financing recommendations identified in Section I, take on their full meaning when put in context with administrative practices and code enforcement programs through which the financing would be delivered. For this reason, the consultants considered it necessary to review existing practices and programs and to recommend changes where change seemed consistent with the overall financing strategy.

The recommendations of this section are aimed at achieving two key objectives:

- . Improving the effectiveness of existing programs and administrative practices;
- . Developing new programs for rehabilitation needs that are not being addressed under existing programs.

The underlying consideration for these objectives is to find solutions to the crucial conflict between the cost of rehabilitation and the inability of residents to pay.

### A. Improving the effectiveness of Existing Programs and Administrative Practices.

The consultants have conferred with the Superintendent of the Bureau of Building Inspection and his staff to review relevant procedures and programs and to consider possible changes. Some of the recommendations resulting from these discussions either were, at the time, or have subsequently been implemented administratively. The following is a list of these recommendations and brief comments on their respective feasibility. For information relative to the details of the programs/procedures, and to the proposed changes, refer to the consultants' Final Report.



1. *Revise and expand the system known as the 3-R Report System (Report of Residential Record) to involve a complete inspection of all residential property at the time of sale or transfer - i.e., institute a Presale inspection procedure. (IV-25)*
  - a) *The 3-R Report (Article 3.5 of the San Francisco Housing Code) should include strong warning language which alerts buyers to the consequences and meaning of the information transmitted. (IV-25)*
  - b) *The City should attach to the 3-R Report a list of all reported Housing Code violations which have not been corrected. (IV-25)*

These recommendations would provide useful information on the buildings condition. The recommendations should be implemented whether or not presale inspection is instituted.

- c) *Where existing Physical Inspection Data is inadequate, a presale inspection should be required to be obtained by sellers or their representative from the Bureau of Building Inspection. (IV-25)*
- d) *If Housing Code violations are found, enforcement procedures and priorities would be based on those already instituted by BBI or as modified to accomplish other recommendations of this study. (IV-26) (See Section 3)*
- e) *In owner-initiated rehabilitation efforts in designated areas, the Presale Inspection System should be used in conjunction with follow-up abatement. (IV-27)*
- f) *To the extent that Presale Inspections do precipitate code enforcement, eligible buyers should have higher priority for publicly assisted financing than that given to property owners who have not been ordered by the City to correct violations. (IV-27)*
- g) *This expanded 3-R Report and Presale Inspection System will be controversial and should be thoroughly discussed in the community. (IV-27)*
- h) *The entire expanded 3-R and Presale Inspection System will require careful monitoring by the recommended housing rehabilitation and neighborhood improvement unit. (IV-29)*





Staff believes that a Presale Inspection System has many desirable and potentially effective features. It would make building deficiencies known to the buyer at the time of sale when the cost of financing of the required improvements can be structured into the financing of the purchase. In apartment houses and hotels subject to routine DAHI inspections, the recommended presale inspection and report would require a shift in the timing and intensity of the DAHI Permit-of-Occupancy inspection in the building. In one and two family structures, the recommended system of presale physical inspection and report would constitute a new operation which would require additional staff and offsetting fee revenue. (Consultants estimate eight new inspectors for a caseload of 3,000 inspections per year. Additional research into the experience of other cities, and into how the system could be implemented in the context of private real estate transactions is necessary before taking action to develop specific legislative proposals.

2. *Improve the effectiveness of Routine Permit of Occupancy Inspections. (IV-30)*

*Routine "Permit-of-Occupancy" Inspections should be less frequent, but more thorough and should result in at least a check-list report to property owners wherever Housing Code violations are spotted. (IV-30)*

This change was implemented by BBI prior to completion of the Consultant's report.

*Once all or most three-and-more unit buildings go through the first cycle of correction, extend the Permit-of-Occupancy program to include two unit buildings. (IV-30)*

*Raise the Permit-of-Occupancy fees to cover the costs of hiring new staff, including staff used in abatement actions which are not currently paid out of Permit-of-Occupancy fees. (IV-31)*

Staff concurs with the desirability of this recommendation but realizes that the implementing cost should be further analyzed with BBI.

3. *Work with a housing code review committee to annually or biennially review relative urgency and cost-effectiveness of various housing code standards and enforcement/abatement procedures. (IV-40)*



This recommendation could result in making the Housing Code and the Inspectors Inspection Manual more meaningful and responsive documents of defining and enforcing the housing condition standards. This would lead to the elimination and modification of requirements that may be considered outdated or meaningless in the opinion of the review committee. Staff recognizes the merit of this recommendation and will discuss with BEI regarding the setup of such a review committee.

4. *Where necessary, emphasize a phased approach to sensitive code administration and enforcement; but assure that an effective and efficient abatement process is maintained. (W-43)*

The concept of a more flexible and sensitive code enforcement process is one that staff would endorse. It should be understood, however, that the City's code process already provides for phasing of code enforcement through the actions of the Abatement Appeals Board. In addition, the experienced professional staff of the Bureau of Building Inspection provide a measure of flexibility to the system in a de facto sense. To implement this recommendation would mean broadening the scope of the Abatement Appeals Board by identifying larger groups of individuals and/or buildings and/or types of code violations that could be exempted from immediate code compliance because of economic hardship on the owners or the tenants.

- a) *A report of all housing code violations and rehabilitation recommendations should be recorded and delivered to property owners whenever there is an inspection under any of the current inspection programs. (IV-44)*

Staff generally concurs with this recommendation which could be implemented in conjunction with recommendations 1(a) - (b). However, there appears to be no need to legally record the report; it could be furnished as part of the 3-R report.

- b) *Wherever life/safety hazards are found by inspectors it is recommended--and seems legally mandatory--that the timetable defined in the "Kopp Amendment" be carried out--thereby assuring an accelerated correction of hazardous conditions. (IV-46)*
- c) *Code review committee study should be given to amending Articles 203, 205 and 206 if experience with "Kopp Amendment" timetables prove to cause hardships; to allow longer term phasing of rehabilitation (e.g., three years for corrections of non-hazardous conditions. (IV-46)*



- d) *Continue to make code compliance moratoria available in hardship situations to owners of one and two unit buildings. (IV-47)*

Extensions of time for correction of non-life safety violations are currently granted by the Abatement Appeals Board of demonstration of hardship. This practice should continue.

- e) *Establish the legality and develop the capability of making non-binding inspections. (IV-48)*

A recurrent procedural problem for considering any new program is a "Catch 22" whereby in order to determine the extent of rehabilitation required to bring a building up to code, an inspection must be made by an official City inspector. Once made, the inspection report becomes a legal document and the owner is obliged to correct the violations. It would be very desirable to be able to determine the cost of code compliance without placing the owner or tenants in jeopardy. Whether BBI can make a nonbinding "informational" inspection is a question which should be pursued with the City Attorney's office.

- f) *Designate a "Housing Judge" in Superior Court to hear all code enforcement cases. (IV-48)*

As long as the current system of assigning all housing cases to the same judge works effectively, there would appear to be no need to act on this recommendation.

- 5. *Continue to utilize the concentrated code enforcement approach of RAP. (IV-50)*

- a) *Carry out RAP in areas already designated, but reserve it for higher need areas in the future. (IV-50)*

Staff generally agrees with this recommendation. Staff feels that economic need of residents is an important factor to be considered in selecting new RAP areas, but must always be weighed against their ability to pay. However, the currently available subsidies may be insufficient to make rehabilitation feasible in seriously deteriorated low income areas.

- b) *Recover administrative costs of RAP by charging fees for services rendered (e.g. plans and specs, loan origination, financial counseling). (IV-54)*

This might be a desirable way to reduce the costs of RAP and to thereby enable the City to implement RAP or other rehabilitation programs at the same time. The service of preparing plans and specs is no longer rendered to owners of 5+ unit buildings in order to reduce the administrative cost. If these costs are built into the loan, the monthly costs to the borrower would be negligible. On the other hand, making these services "free" to the user increases the popularity of the program. Staff suggests that further study of this recommendation is necessary.



6. *Intensify the efforts of the Systematic Code Enforcement Program to reduce the cycle for abatement in all apartment buildings and hotels from 18 years to 10 years. (IV-54)*

Reducing the cycle for Citywide completion of the Systematic Code Enforcement Program would be very effective in expanding the number of rehabilitated buildings annually. Staff agrees with this recommendation. There are some concerns that would have to be further investigated before staff would fully want to implement this change. For example, it should be determined whether the increased administrative costs could be offset by reasonable additional fees to continue the self-sufficiency of the program. Also, to mitigate against possible adverse effects in terms of low income tenants who would be affected, low interest long term loans to borrowers and/or hardship loans for tenants should be made available.

B. New Programs for Rehabilitation Needs That Are Not Being Addressed Under Existing Programs.

The consultants have attempted to identify new approaches to code administration that would be helpful in achieving greater amounts of rehabilitated structures and - implicitly - would provide a conduit for the financing programs previously recommended.

1. *Develop an owner-initiated rehabilitation program on a demonstration basis in two or three neighborhoods. (IV-8)*

A voluntary, owner-initiated approach to rehabilitation financing, rather than tying it to strict mandatory code enforcement would be both desirable and feasible for many lower density, low to moderate income neighborhoods. This type of approach is currently being used by the Mission Housing Development Corporation (MHDC) in the Mission and by the San Francisco Development Fund's Housing Conservation Institute in the Westwood Park and Sunnyside neighborhoods. In the latter case, what has been lacking is an attractive financing program of below market rate rehabilitation loans. If the City were to undertake an owner-initiated program itself under the supervision of the Bureau of Building Inspection, it would be necessary to have a favorable resolution to the question of non-binding inspections in order to protect the voluntary aspect of this approach. Staff recommends that this program be further developed and improved for lower density neighborhoods.





2. *Combine the owner-initiated program with the Systematic Code Enforcement Program in areas where there are a mixture of multi-unit apartment houses with single and two-unit structures. (IV-9, 52)*

This recommendation would provide rehabilitation counseling and financing on a voluntary basis to all owners in a given area, while requiring that all 3+ unit buildings be inspected and brought up to Housing Code standards. Staff recommends that this program be developed and implemented on a demonstration basis.

3. *Institute a demonstration program involving "phased" code enforcement under the RAP approach, using other tools, such as acquisition/rehabilitation/resale, and residential conversion, as needed. (IV-52)*

This approach could be the way to address the problem of rehabilitation in the lower-income areas where immediate enforcement might have drastic and undesirable effects on existing residents. However, extending the program would lead to increases in administrative costs. Staff suggests that more thought should go into the cost and procedure of instituting this approach and what the categories for eligibility for code deferral would be.

4. *Institute the "predesignation" of areas to make counseling and financial assistance available on a voluntary basis before initiating code enforcement activities under RAP or the area-concentrated Systematic Code Enforcement Program. (IV-10)*

Staff realizes that the "predesignation of areas" approach would allow the RAP program, for example, to operate on a voluntary basis for a period of time prior to the start-up of the mandatory code enforcement. The questions in implementing this recommendation are whether Marks-Foran bonds could be sold in support of this less-than-mandatory approach, whether this approach would induce speculation and whether the approach would be too costly to administer. Staff suggests further study of this recommendation.

5. *Establish a Housing Rehabilitation Strategy Planning Unit and Guidance Committee in the Department of City Planning to monitor and evaluate program effectiveness and to make recommendations for program modification. (IV-5)*



Staff agrees that the Department of City Planning should evaluate the impacts of rehabilitation programs and making recommendation for program modification. Both of these functions are necessary for the Department to fulfill its responsibilities under existing organizational relationships in both recommending new areas for the RAP program and in conducting environmental review of the proposed areas. These functions are presently performed by the Housing Section in the Department. OCD rather than the Department should evaluate the operational efficiency of the programs.

6. *Monitor owner-initiated rehabilitation areas and convert to mandatory code enforcement under RAP if sufficient compliance is not being achieved. (IV-11)*

The owner initiated program and RAP should remain separate and distinct tools. RAP should not be used as a threat to motivate rehabilitation in owner-initiated program areas. This recommendation should not be endorsed.

#### C. Recommended Measures in Support of New Programs.

A number of the recommendations contained in Part IV of the consultants' Final Report pertain to measures that might be taken to support the programs and administrative changes that they recommended.

1. *Develop easy-to-read manuals on housing rehabilitation. (IV-13)*
2. *Continue to use low-cost, high visibility public improvements (e.g. street trees) to help achieve neighborhood-wide upgrading. (IV-13)*
3. *Encourage self-help and neighborhood initiated improvement activities. (IV-13)*
4. *Expand rehabilitation counseling services. (IV-13)*
5. *Expand Adult Education programs in rehabilitation, maintenance, and housing finance. (IV-14)*
6. *Develop a program to support neighborhood improvement organizations. (IV-14)*

Staff feels that all of these recommendations could be useful and supportive of the more costly code administration programs. The only question here is the need to assess the administrative costs that would be involved, in relation to other priorities.



7. *The City should significantly expand its commitment to low-cost neighborhood capital improvement. (IV-17)*

The City is already responding to many of these neighborhood needs through the NIIP and Bicentennial programs under Community Development. This recommendation would provide additional improvements through the City's Capital Improvement Program to non-Community Development eligible areas.

8. *Provide organizational and technical assistance to merchants and property owners to improve the operation of their businesses and to develop implementable projects for neighborhood shopping district improvement. (IV-20)*

Staff of the Department of City Planning's Commerce and Industry section is already working with several merchants groups in the City toward the development of improvement plans. Funds are earmarked in the 1977 Community Development program to pay for public improvements in conjunction with these improvement plans, and to assist in generating business expansion projects through the Small Business Administration's "502" program. To the extent the staff assistance is available, this type of activity and assistance will continue to be provided.

### III. PROGRAM MANAGEMENT

In considering the financing and code administration recommendations, the consultants have made several significant recommendations with respect to program management. The consultants have suggested that the substantive program recommendations can and should be considered on their own merits - aside from consideration of management and organizational structure. This is a good suggestion, and explains why this section was placed at the end of their report.

Staff generally feels that although these are the most controversial recommendations, at least as far as City agencies are concerned, the management and organizational implications and recommendations are vitally important to the successful implementation of the financing recommendations. Below are listed the four basic items presented by the consultants, with staff's comments on each.



- A. Establish a New Staff Agency Called the Office of Housing Finance to be Responsible for Housing and Rehabilitation Financing Matters for the City. (III-33, V-2)

The consultants have recommended, and staff concurs, that one of the most significant ways that San Francisco could expand its capabilities and accomplishments in the preservation and enhancement of its housing stock is to create a new staff agency with broad responsibilities in the area of housing and rehabilitation finance. Currently there is a significant gap in the City's organizational structure which directly affects its ability to capitalize on new financing possibilities. Nowhere in City government is the responsibility specifically delegated for dealing with FHA, CHFA, private lenders, private developers, or potential bond underwriters for Marks-Foran and SB99 bonds. Nor is any one agency given the lead responsibility for pursuing local, state, and federal legislative action to create workable financing programs for the City. Nor is there any one agency to which the public can turn for information, assistance, or relief in matters pertaining to rehabilitation financing, new construction financing, or the problem of redlining.

The powers and duties of this office have been recommended to be as follows:

1. *Coordinate activities between the City and FHA, CHFA, private lenders, and special rehabilitation financing committees.*
2. *Coordinate a working technical team of City staff, bond counsel, underwriters, for the marketing of Marks-Foran bonds.*
3. *Administer all indirect assistance programs, such as the issuance and management of Marks-Foran bonds.*
4. *Serve as a central loan review committee.*
5. *Coordinate the Rehabilitation Financing Advisory Committee.*

Staff believes that all of these would be appropriate functions for the new agency to perform.

6. *Establish and manage a Revolving Rehabilitation Assistance Fund.*





There is no such fund at the present time. The sources of financial assistance currently available are all appropriated to different programs, different agencies administer them, and there is no central review and allocation of resources to need except through the annual budget process. A single fund centrally administered would provide greater flexibility in the use of funds and permit them to be used where the demand is greatest. On the other hand, the uncertainty of the availability of a known quantity of loan funds for each program may create problems for the program managers. This recommendation should be assessed after the Office of Housing Finance is established and operating.

7. *Further explore the possibility of assigning responsibility for all loan processing, financial counseling, and preparation of financial assistance manuals to the Office of Housing Finance.*

Staff concurs with the consultants that the responsibility for supervising the loan counseling function might best be carried out under the Office of Housing Finance. The advantages this arrangement would have generally relate to being able to utilize staff more efficiently by assigning loan officers to programs on a needed basis rather than having them permanent employees of the operating program staff. Also, having the loan officers as employees of the Office of Housing Finance would allow for greater interchange and interaction among personnel who are doing essentially the same thing. There may be drawbacks to this idea, however, such as the loss of clear management accountability that would result if existing loan counselors of the Redevelopment Agency, for example, are no longer employees of the Agency. As the consultants have suggested, these issues need further consideration before a final recommendation can be made.

8. *Place the Office of Housing Finance initially under the jurisdiction of the Chief Administrative Officer.*

This seems to be a valid suggestion because it would place the Office in an elevated position where its credibility would be easiest to establish. Also, although it would appear to be independent of the operating agencies, it would necessarily have to maintain strong and cooperative relationships with them. Another possibility would be to locate the office in the Mayor's office or in the new consolidated units if recommendation 2 or 3 described below is implemented. Before any final recommendations on these



matters are endorsed, discussions need to be held with the Chief Administrative Officer.

The consultants' two other major recommendations with regard to program management are:

2. *Housing rehabilitation and neighborhood improvement program activities should be consolidated into a central unit of City government to strengthen program efforts by capitalizing upon existing resources and by providing an organizational focus for new program initiatives. (V-6)*
  - a) *Consolidate, overtime, all program activities involving Housing Rehabilitation and Neighborhood Improvement into one organizational unit.*
  - b) *Assign responsibility for performing all client related rehabilitation counseling and services to this unit.*
  - c) *Create a new management position to be director of this new unit.*
  - d) *Develop a program planning capability within this new unit.*
  - e) *Assign responsibility for central project operations to this unit.*
  - f) *Provide for other central office support staff, as needed.*
  - g) *Continue to obtain program support services on an inter-departmental work order basis.*
  - h) *Initially keep this central administrative unit in the Department of Public Works, Property Conservation Division, but coordinate with possible phased reorganization and overall consolidation as discussed in recommendation 3, below.*
3. *Continue a more detailed study of the feasibility and desirability of a unified housing and community development agency and pursue a phased approach to reorganization of housing rehabilitation and neighborhood improvement activities. (V-11)*



- a) *In the near term, to avoid excessive administrative disruption, housing rehabilitation and neighborhood improvement operations should remain organized generally as currently structured. (This assumes that recommendation 2, above, is implemented) (V-11)*
- b) *In the mid-range, unless program objectives are being met satisfactorily under the existing near-term organization, all housing rehabilitation and neighborhood improvement program activities should be consolidated into a single department under the Chief Administrative Officer. (V-12)*
- c) *In the long-run, if studies establish its feasibility a new housing and community development agency should be established in the City which would consolidate and replace the existing Redevelopment Agency and Housing Authority plus parts of the Property Conservation Division and Model Cities Housing Development Corporations. (V-13)*

Staff feels that both recommendations 2 and 3 represent departures from the existing situation, and that additional study is necessary before deciding which changes, if any, would be most desirable. The review of these matters in the consultants' report provides some possible options for consideration, but does not begin to evaluate what the actual costs might be. The implications these changes might have for the Department of City Planning are also not indicated. As they point out, most of these matters were beyond the scope of the consultants' study.

The staff believes that the City would benefit from some consolidation of the housing and community development functions, but the form that consolidation should take will require additional study. There are currently before the Board of Supervisors two reorganization proposals; in addition, the Office of Community Development is undertaking a study at the request of the Mayor. The staff will monitor these matters closely.





